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TAGS: ENRG EPET EIND EINV PREL PGOV FR
SUBJECT: FRENCH ELECTRICITY UTILITY GIANT EDF GETS "GREEN LIGHT" FOR PARTIAL PRIVATIZATION

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Ref: Paris 7334

¶1. (SBU) Summary: After months of delays, French Prime Minister Dominique de Villepin confirmed on October 24 that France's state-owned power company Electricite de France (EDF) is to be partially privatized. To limit protests from trade unions, the GOF has pledged to maintain 85 percent ownership and to plough all the proceeds from the upcoming share issue back into EDF. The company has in turn agreed to invest 40 billion Euros (USD 48 billion) over the next five years as well as to keep any potential electricity prices rises below inflation. Anti-privatization unions, who want EDF to remain 100 percent in public hands, are gearing up for more industrial action with the support of the Socialist Party, which appears to be leaning further left on the issue of privatizations (particularly EDF's) in preparation for the 2007 presidential elections. End Summary.

The initial public offering

¶2. (SBU) On October 24, Paris newspapers widely reported Prime Minister de Villepin's decision to clear the way for the sale of 15 percent of EDF, Europe's biggest power utility and, counting its international holdings, arguably the largest in the world. The partial privatization is less than what the GOF had originally intended. The previous Raffarin Government made a first concession to French energy unions by passing a law on August 9, 2004, which requires the State to maintain 70 percent of EDF's capital. The Villepin Government has conceded further by agreeing to half the legal capital opening. The sale will address EDF's substantial funding needs to implement capital investments in time for the EU deadline of January 1, 2007, when residential customers will be free to choose their electricity suppliers.

¶3. (U) French Economy, Finance and Industry Minister Thierry Breton announced separately that the share offer would be launched on October 28, with the new shares to begin trading by November 21 at the latest. (Reftel details the modalities of the share offering.) He added that at least seven billion Euros (USD 8.4 billion) would be raised, thus making the EDF partial privatization the largest sell off in recent years. (Note: 2002 to 2005 privatizations: France Telecom 5.1 billion Euros; Snecma 2.2 billion Euros; Credit Lyonnais 2.2 billion Euros; privatizations since June 2005: France Telecom 2.4 billion Euros and Gaz de France 2.5 billion Euros).

¶4. (U) As the initial public offering is to be "carried out in the interests of France, of the company and of its employees," the French utility's 160,000 employees will have the opportunity to buy an additional one billion Euros worth of shares, or 15 percent of the offering, which could contribute a significant amount to total value of the operation, Breton explained.

Laying out special "public sector" conditions

¶5. (SBU) To tackle stiff opposition from EDF unions and staff, Villepin signed a "public service" agreement with EDF Chairman and CEO Pierre Gadonneix. He said the contract would ensure that the utility abide by three rules: that rates do not soar, that the same pricing policy be maintained throughout the country and that electricity be provided for the poor.

¶6. (SBU) In addition, EDF has pledged that tariff increases would not exceed inflation for the same period. One of the unions' major arguments against partial privatization has been that prices would rise. The issue of tariffs became potentially embarrassing for the government as recently privatized gas utility Gaz de France announced a 12 percent

increase in gas prices starting November 1. At the same time, EDF has vowed to invest 40 billion Euros (USD 48 billion) over the next five years to boost electricity production and improve its distribution network. GOF officials have indicated to us that much of the proceeds will go toward financing the planned European Pressurized Reactor (EPR) at Flamanville in Normandy, whose cost may well top early estimates of 3.75 billion Euros. Other plans include developing renewable energies (solar wind and geothermal power plants) as well as constructing a new hydroelectric power plant in Gavet, in the Alpine department of Isere further down the road, in 2013.

Opposition continues

¶7. (SBU) France's leading energy unions, Communist-led CGT and Socialist-led CFDT, continue to oppose the government plans as they have done since 2002, when the previous Raffarin government first announced its intention to proceed with the capital opening of France's electricity and gas utilities. The opposition has never exceeded a "symbolic" level, although it has been disruptive. In the summer of 2004, EDF unions and staff staged a number of protests, ranging from a general blackout in selected areas to targeted cutting of power in the homes and offices of the prime minister and other government ministers.

¶8. (SBU) The unions have not won the battle of public opinion. However, they have urged EDF workers to go on strike starting November 8 and have taken a petition to the Prime Minister's office signed by over 100,000 people, who want 100 percent of EDF to remain in the government's hands. The more liberal wing of the Socialist Party has joined the radical left in protesting against the upcoming partial privatization. Former Prime Minister and Socialist Presidential contender Laurent Fabius has even called for the re-nationalization of EDF if the socialists regain power in 2007.

¶9. (SBU) To contain social disruption over energy issues as much as possible, de Villepin announced on October 28 that state-owned nuclear group AREVA would not be partially privatized, as planned last year by then-Economy and Finance Minister Nicolas Sarkozy. Areva should have been the last state sell-off brokered by Sarkozy, who also sealed the privatizations of engine maker SNECMA and utilities EDF and GDF. However, this privatization, which had been the center of angry environmental protests, has been abandoned for the time being to prevent an alliance of political forces opposing the current government.

Comment

¶10. (SBU) We have been told that the CGT and CFDT are likely to adopt very combative attitudes on this and other "social" fronts in preparation for their annual congresses next year, as a growing number of militants in both unions question their respective leaderships. To reaffirm their leadership, the heads of France's two largest trade unions have upped the ante in bitter and overdrawn recent conflicts, which included a 24-day strike at Corsican ferry company SNCM over the firm's privatization plans, and a three-week strike at France's largest oil refinery, Total's Gonfreville plant, over wages. Transportation workers have also been on strike in Marseille and Nancy.

¶11. (SBU) These waves of protests have not yet succeeded in challenging Villepin's policies. Despite government fears, which were fuelled by the failure of the EU Constitution referendum, the partial privatization should be as successful as the recent partial sell-off of gas utility company GDF, which took place against a backdrop of similar union and employee opposition. Previous difficult privatizations at Air France and France Telecom prove that stiff resistance melts away in the end, through what an industrial analyst described to us as a "typically French war of attrition." End Comment.

Hofmann